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RUEHLO/AMEMBASSY LONDON PRIORITY 1386  
RUEHNC/AMEMBASSY NOUAKCHOTT PRIORITY 0924  
RUEHFR/AMEMBASSY PARIS PRIORITY 1855  
RUEHRB/AMEMBASSY RABAT PRIORITY 8459  
RUEHTRO/AMEMBASSY TRIPOLI PRIORITY 0157  
RUEHCL/AMCONSUL CASABLANCA PRIORITY 4152  
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY  
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C O N F I D E N T I A L SECTION 01 OF 03 TUNIS 001528

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STATE FOR NEA/MAG (HARRIS)  
STATE PASS DEPT OF AGRICULTURE  
STATE PASS USTR (BURKHEAD) AND USAID (MCCLLOUD)  
USDOC FOR ITA/MAC/ONE (NATHAN MASON)  
CASABLANCA FOR FCS (ORTIZ)  
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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [TS](#)  
SUBJECT: TUNISIANS FRUSTRATED BY RISING PRICES

Classified By: Ambassador Robert F. Godec for reasons 1.4 (b) and (d).

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Summary  
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¶1. (C) Although inflation for the year is officially only 2.8 percent, Tunisians are complaining loudly about rising gas and food prices. Economists argue that official inflation fails to capture the real rise in the cost of living, which may be as high as 8 percent. Rising world oil and wheat prices have made the GOT's continued subsidies of fuel and foodstuffs increasingly costly and have forced the GOT to pass on a share of the cost to consumers. The recent, and surprising, shortage of milk highlighted that the GOT system of fixed prices can lead to unexpected consequences. Yet, for fear of creating social unrest the GOT is unlikely to abandon its system of fixed prices and subsidies anytime in the near future. End Summary.

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Official Inflation Low  
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¶2. (SBU) According to the latest Central Bank report, inflation for the first ten months of 2007 is 2.8 percent, down from a high of 4.2 percent in 2006 but up 3.7 percent year-on-year for October. Yet, Tunisian economists are quick to question the veracity of these figures, arguing that the Consumer Price Index (CPI) does not accurately reflect reality. One private economic consultant estimated that the real increase in cost of living is nearly 8 percent. According to the Tunisian National Institute of Statistics (INS), the CPI is currently being calculated using a basket of goods from 2000. The CPI basket weights food at about 37, housing at 18 percent, leisure at 13 percent, followed by transport, clothing, and personal expenses all at roughly 11 percent. INS statisticians acknowledged that the household basket is rapidly changing and told EconOff that they would

like to reevaluate the basket every five years, rather than the current 10 year timeline. However, they have not received permission to use the latest household survey, which was conducted in 2005. Economists note that such permission is unlikely to be forthcoming since an updated basket is certain to hike the official inflation rate. In addition, several economists have complained that the basket of goods contains so many subsidized products that it is easily manipulated. They cite as an example the recent GOT decision to keep the price per loaf of bread the same by reducing the weight.

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Subsidies Increasingly Costly  
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¶3. (SBU) The GOT has long maintained fixed prices and subsidies on staple food products and fuel, which have mitigated the impact of inflation on consumers. The subsidies are paid from the General Compensation Fund and a separate subsidy allocated for energy, with total subsidies reaching approximately 1.3 percent of GDP in 2007. This year's outlays are expected to reach 575 million dinars (roughly US \$475 million), up nearly 80 percent over 2006 figures. With soaring world oil prices, the GOT has been forced to pass on price hikes to consumers by raising the (fixed) price for gasoline 10 times since 2004. The GOT estimates that each one dollar increase in the price of crude oil creates a US \$28 million increase in government expenditures. (NOTE: The growth of subsidies is unlikely to be reflected in an increased budget deficit. The GOT is careful to keep the budget deficit below 3 percent. However, the external debt ratio remains high -- nearly 54 percent of GDP, but down from 68 percent -- and in August 2007 the GOT

TUNIS 00001528 002 OF 003

issued a US \$248 samurai bond on the Japanese market. END NOTE.) The rise in world wheat and barley prices has also forced the GOT to make significant adjustments (nearly 22 percent for wheat and 50 percent for barley) in the production price for both products and to raise retail prices. Despite these price adjustments, subsidies for wheat-based products remain high: 26 percent of the total price for couscous and pasta, 44 percent for semolina flour, and 42 percent for a loaf of bread.

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Rising Prices, Shrinking Bread  
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¶4. (U) Despite benefiting from many subsidies, Tunisians are vocal in complaining of the high cost of living -- particularly rising food and fuel costs. In response to the rising world wheat prices, the GOT announced retail price increases for semolina (7 percent) and couscous/pasta (8 percent) and weight decreases for a loaf of bread (an equivalent of a 12.7 percent price increase) and a baguette (equivalent to a nearly 20 percent increase). The smaller loaves of bread have not gone unnoticed, with one Tunisian joking that the baguettes are soon going to become croissants. With Tunisian consumption of wheat products among the highest in the world, these hikes are particularly significant to the average Tunisian. In 1984, Tunisians responded to a 100 percent increase (a nominal increase of just .100 dinars or US 8 cents at the time) in the cost of bread by rioting in the streets.

¶5. (U) Wheat is not the only product that has become more expensive for Tunisians. Notably, meat, poultry, and eggs are traded freely and rising input costs are passed on to consumers. From January 2006 to August 2007, meat and poultry prices were up over 19 percent and egg prices up 13 percent. On October 27, the GOT raised gas prices from 1.150 to 1.200 Tunisian dinars per liter (an increase of US \$0.04), representing the second hike in 2007. Since 2004, the gas price has increased nearly 56 percent, up from only .770 dinars (roughly US \$0.64).

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Where's the Milk?  
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¶6. (U) In addition to dealing with shrinking loaves of bread, in recent weeks Tunisians faced a baffling shortage of milk. Beginning in early November grocery store shelves and small shops were nearly barren. One EmbOff saw a crowd descend upon a filled palette of milk at French retail giant Carrefour, while one Tunisian told EconOff of the hushed under the table milk purchase from a local grocer who had begun to hoard milk and ration it out to his regular customers. The shortage appears to have been created by excessive milk exports and rising production costs. Milk producers complain that the production-level price for milk, .450 to .480 dinars per liter, does not cover production costs given the rising feed prices. In addition to the legal export of milk, Tunisian newspapers speculate that the low fixed prices encouraged illicit milk exports to Algeria and Libya -- which contributed to the milk shortfall. Although the GOT was able to put milk back on the shelves by importing five million liters from Europe, the episode served as a reminder of the difficulties faced in planned economies. Many Tunisians are anticipating that the shortage, and the recently announced .050 dinar increase in the production-level price, will precipitate an increase in the cost of milk.

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Comment  
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TUNIS 00001528 003 OF 003

¶7. (C) The GOT now finds itself between a rock and a hard place. The system of fixed prices continues to distort the market, leading to shortages of basic products such as milk, and the subsidies represent a significant expense in the GOT budget. Yet despite the fixed prices, Tunisians are facing a rising cost of living that likely exceeds the official inflation rate. The IMF has continued to argue for further liberalization in the agricultural sector and a reduction in energy subsidies, but it is clear that such actions have a social and political impact for the government. The Tunisian populace remains extremely sensitive to hikes in basic food and fuel costs. With the "bread riots" of 1984 a reminder of the possibility for unrest, the GOT is unlikely to eliminate the subsidies in the near future.  
GODEC